

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

September 5, 2003

11 North Washington Street, Suite 250
Rockville, Maryland

Board Members Present:	Stephen Farber, Chair Arthur Spengler, Vice-Chair Sandra Kaiser, Secretary Mark Barnard Sharon Cayelli John Sparks Beverley Swaim-Staley Joseph Adler
Staff:	Peter Krzyzek, Executive Director Linda Herman, Senior Investment Officer
Others Present:	Mark Brubaker, Wilshire Associates Marc Friedberg, Wilshire Associates Connie Donovan, General Counsel to the Board

CALL TO ORDER

Mr. Farber called the open session of the Board to order at 10:45 a.m.

APPROVAL OF MINUTES

The Board unanimously approved the minutes of the June 6, 2003 open session.

FUND PERFORMANCE REVIEW AND INVESTMENT OUTLOOK

Mr. Krzyzek presented the July 31, 2003 performance results and updated the Board with the August 31, 2003 preliminary results. Mr. Brubaker discussed changes to the System's asset allocation structure since 1999 when the Board approved rebalancing the equity assets to reduce the value bias of the portfolio. For the year ended June 30, 2003, the total fund composite outperformed the Board's policy index return by .56% and ranked at the 37th percentile when compared to Wilshire's Public Fund Universe. For the quarter, the total fund performance ranked at the 14th percentile. The fund's outperformance was attributed to the strong performance of the international equity and fixed income sectors. The Board discussed the performance of JP Morgan, ranking in the top third of their peer group for the one year ending June 30. WR Huff's performance ranked at the 13th percentile for the same one year period. Most of the Fidelity funds offered in the Retirement Savings Plan continue to rank in the top quartile.

INVESTMENT COMMITTEE REPORT

Mr. Barnard discussed the Investment Committee Report.

Small Cap Value Manager: Mr. Brubaker summarized the characteristics of each of the two firms interviewed in executive session including the size of the firms, investment philosophies, management structure, fees charged and other information. The Board agree to hire, pending contract negotiations, Wellington Management. The following resolution was moved and approved:

0309-01 Resolved, That the Board approves the hiring of Wellington Management for a small cap value manager mandate, pending contract negotiations.

International Equity Structure and Manager Funding Policy: Mr. Brubaker presented an overview of the Plan's current international equity structure as defined within the manager funding policy. Changes to the international equity structure are being proposed to increase the return potential of the portfolio without taking undue risk. The Board approved the following resolution:

0309-2 Resolved, That the Board approves changes to Capital Guardian's guidelines including increasing the emerging markets exposure to a range of 10 to 30% as determined by Capital Guardian. That the Board approves changing the Manager Funding Policy by reducing the weighting of the BGI EAFE Fund to 5% and increasing the allocation of Marathon to 45% of the overall international equity portfolio. The changes result in the following rebalancing:

- **Marathon** (\$7,000,000)
- **BGI EAFE Fund** (\$6,000,000)
- **Capital Guardian** \$13,000,000

Adams Street: Mr. Krzyzek discussed the funding approach for Adams Street approved in December 2002. Mr. Barnard and Mr. Brubaker addressed questions related to current market conditions and the possibility of broadening the System's exposure to the asset class by including additional funds. The Board discussed the benchmark proposed by staff for the Adams Street portfolio; the Russell 3000 Index + 300 bpts. The Board approved the following resolution:

0309-03 Resolved, That the Board approves the Russell 3000 + 300 bpts. as the benchmark for the Adams Street private equity fund-of-funds. That the Board approves a reduced funding commitment of \$20 million to Adams Street's U.S. only fund for 2004 and further directs staff, and Wilshire, to review other alternative investment strategies.

ADMINISTRATIVE COMMITTEE REPORT

Mr. Krzyzek presented to the Board the report of Administrative Committee activities.

Due Diligence/Continuing Education Report: Mr. Krzyzek presented the quarterly update of due diligence and education expenses, noting the reports received from staff and trustees on

conferences and meetings attended during the last quarter. The Board accepted the report as presented.

Organizational Structure: Mr. Krzyzek discussed the Board staff organizational chart, reflecting the addition of an accountant position, abolishment of the program specialist position, and future possible positions for clerical support and risk management. To re-confirm the decisions the Board made on staff organization starting in March 2001, the Board approved the following resolution:

0309-04 *Resolved, That the Board re-confirms its previous decisions on staff organization.*

Drop Annuity Option: Ms. Herman discussed the annuity distribution option currently offered within DROP and how to best annuitize the DROP benefit should a participant select that form of distribution. After discussion, the Board approved annuitizing the benefit amount under the Employees' Retirement System. The Board approved the following resolution:

0309-05 *Resolved, That the Board approves annuitizing the DROP benefit under the Employees' Retirement System through the System's benefit paying agent. The costs associated with the payment of the benefits will be tracked separately by the benefit paying agent. The Board further authorizes staff to negotiate these arrangements with the benefit paying agent.*

Annual Review – Northern Trust: Ms. Herman presented an overview of Northern's performance in the areas of custodian bank activities, security lending, and risk and performance. Both staff and the ERS investment managers are very pleased with the service levels provided. Staff recommends re-negotiating Northern's contract at the expiration date, June 2004.

Committee Meeting Schedule/Election of Officers: Mr. Farber discussed the current meeting schedule for the Committees and their membership. The Board recommends the following resolution:

0309-06 *Resolved, That the Board approves changing the Administrative Committee quarterly meetings to 3 p.m. on the first Thursday of the second month as outlined in the attached schedule.*

OTHER BUSINESS:

The Board discussed items on the workplan recommending no changes.

There being no further business of the Board, the open meeting session was adjourned at 12:15 p.m.

Respectfully submitted,

Sandra P. Kaiser, Secretary